

## APPENDIX B

### THE NATIONAL FLOOD INSURANCE PROGRAM'S APPROACH TO FLOOD HAZARD MITIGATION

The National Flood Insurance Program, as administered by the Federal Insurance Administration, Department of Housing and Urban Development, is a federally subsidized program initiated to protect property owners against flood damage. The Program, for the first time makes flood insurance available to individuals and other property owners at affordable rates. In return for the Federal subsidy local governments are required to adopt certain minimum flood plain management regulatory measures to reduce or avoid future flood damage within their flood-prone areas. A discussion of the evolution of the Program follows.

Periodic flood damage is the consequence of flood plain occupancy. Recognizing the threat to lives and property arising from development of the flood plain, Congress acted to reduce potential losses by adopting the Omnibus Flood Control Act of 1936. This Act directed Federal efforts towards the construction of engineered protection works to control flood waters thereby reducing the extent of the flood hazard. Since 1936, the Federal government has spent an estimated \$9 billion in these efforts. Despite this expenditure, annual losses from floods continue to increase. This tendency toward increasing flood-related losses was analyzed in a 1966 Senate Committee Study. The study pointed out:

In spite of flood protection programs of the past 30 years, the average annual flood hazard is now greater than before such programs began because people have moved themselves and their property into flood-prone areas faster than flood protection works have been built. Many factors have been responsible for this development of flood-prone areas: the general growth of population, income and wealth, among others; but it is also clear that the substantial separation of costs from benefits - whereby the general public bears most of the costs of flood

protection works while individual members primarily receive the gains

-- has been a major factor encouraging such development.

It was recognized that providing additional structural protection to reduce losses resulting from continued flood plain development would be prohibitively expensive. In addition, experience had shown that traditional solutions did not provide sufficient protection from flood damages. Clearly, there was a need for a new approach to reduce flood losses. The National Flood Insurance Program is the culmination of 25 years of effort to devise an alternative to the use of structural protection for flood damage reduction.

In 1951, after a series of disastrous Midwest floods, President Truman included a request for \$50 million for a flood insurance program within the flood relief appropriation. Opposition in Congress and the insurance industry caused the flood insurance proposal to be deleted from the act as passed.

Despite this setback, Truman proposed an even more substantial flood insurance program in 1952. This time he earmarked \$1 1/2 billion for the insurance which would be underwritten by the Federal government although administered by private industry. This plan suffered a fate similar to his earlier one and left the country still without an effective alternative to structural protection.

In the mid - 1950's flooding throughout the eastern third of the Nation prompted yet another proposal. President Eisenhower in 1956 proposed a \$2.9 billion flood insurance program. As an added feature, 40% of the premiums would be subsidized by state and Federal governments. Although this program was adopted in the Flood Insurance Act of 1956, funds were never appropriated for its implementation. A major reason for Congress' reluctance was the absence of effective flood plain management regulatory provisions in the Act. It was thought that without such controls, the availability of subsidized insurance would stimulate further development of flood plains leading to even greater flood damages.

Continued skepticism by the insurance industry and faith in structural protection also were contributing factors in the program's demise.

Again it was a series of natural disasters which rekindled interest in flood insurance and which finally resulted in implementation of a substantive program. Bills to recreate a flood insurance program were unsuccessfully introduced almost annually in the early 1960's.

In August of 1966, however, the findings of two studies on the feasibility of a national flood insurance program were transmitted to Congress. The first, prepared by the Task Force on Federal Flood Control Policy entitled "A Unified National Program for Managing Flood Losses (H.D. 465)", contained several findings that aided Congress in establishing the Program.

At the time that this study was carried out, the main alternative to increasing flood damage was a larger investment in protection works. The study criticizes at length the exclusive reliance on protection measures such as dams, levees, and channel improvements (for details see Part B "Alternatives to the Proposed Action").

The study goes on to encourage, for the first time, that the hard economic cost of developing in the flood plain be assessed. It states that principles of national economic efficiency require that the benefits of flood plain occupancy exceed all associated costs, not merely those borne by the individual or enterprise which so locates. Total associated or full social costs include:

1. immediate expenses of development.
2. damages to be endured by the occupant or the expense of protective measures undertaken to reduce the frequency and extent of flood damage.
3. damages forced on others as a result of encroachment, and public costs involved in disaster relief and rehabilitation.

The study also notes that flood plain occurrence in which benefits do not exceed the estimated total costs is undesirable since it causes an eventual net loss to society. Further, it states that traditional policies governing the the national flood control program had failed to achieve the necessary integration and equitable apportionment of responsibilities. There was at that time an inadequate recognition of the nature of the flood threat and the limitations of engineering works; a river control approach championed to the virtual exclusion of other applicable means such as floodproofing and land regulation; a situation in which the individual beneficiaries of engineering protection works did not; in many instances, bear an adequate share of the costs.

It is precisely the intent of the present National Flood Insurance Program to address the inequities spelled out in H.D. 465 by requiring developers and owners of new structures to bear the true economic cost of building in and occupying the flood plain.

The second study submitted to Congress in 1966 was entitled Insurance and Other Programs for Financial Assistance to Flood Victims, and was a report from the Secretary of Housing and Urban Development as required by the Southeast Hurricane Disaster Relief Act of 1965. In recommending flood insurance as a new program complementing existing flood programs such as flood forecasting, protection works, and disaster relief, the integral part of the National Flood Insurance Program was noted as being:

"(1) to help provide financial assistance for victims of flood disasters in order to rehabilitate their property; and (2) to help prevent unwise use of land where flood damages would mount steadily and rapidly. The National Flood Insurance Program provides a balanced mechanism for ensuring that both are met."

In August 1968, the National Flood Insurance Act of 1968 was enacted as Title XIII of the Housing and Urban Development Act of 1968, Public Law 90-448. Through Section 1361 of that Act, the Secretary is authorized to "develop comprehensive criteria designed to encourage, where necessary, the adoption of adequate State and local measures which will:

1. constrict the development of land which is exposed to flood damage where appropriate;
2. guide the development of proposed construction away from locations which are threatened by flood hazards;
3. assist in reducing damage caused by floods, and
4. otherwise improve the long range land management and use of flood-prone areas..."

The 1968 Act provided subsidized insurance only to properties that were already in existence at the time the area in which they were located was identified as a special flood hazard area. However, the Act required flood-prone communities, as a strict condition of participation in the Program, to adopt local flood plain management measures to reduce or avoid flood damage in connection with all new construction.

It is the combination of effective flood plain management controls and full actuarial rates for new construction that will ensure the viability of the National Flood Insurance Program and preclude its becoming a giveaway program that could impose a heavy burden on the majority of the Nation's taxpayers. A subsidized insurance program with no flood plain management requirements would be another disaster relief effort and could actually encourage irresponsible construction in flood-prone areas. With adequate flood plain management regulations, however, there is hope of eventually reducing the tax burden, while at the same time providing protection at low cost to those who built or purchased in ignorance of the hazard.

The voluntary nature of the Program established under the 1968 Act was its major defect. "Despite the efforts of the Federal Insurance Administration to carry out the Congressional intent for land use and control measures in its administration of the Act, it became quite obvious that without mandating provisions to bring about these measures, no real accomplishment could be expected in this respect." (Report of the Committee on Banking, Housing and Urban Affairs, U.S. Senate, to accompany H.R. 8449, Flood Disaster Protection Act of 1973).

Since its original passage, a series of amendments has significantly altered the Program's operation. The first of these amendments came in 1969 and was intended to make participation more widespread. Previously, a detailed flood insurance study had to be completed before a community was eligible for the sale of flood insurance. This new provision allowed the Secretary to authorize coverage whenever it is determined the Program's objectives will be furthered.

In June 1969 the Criteria for Land Management and Use were published in the Federal Register. In March 1970, new regulations were issued to reflect these amendments. The 1971 amendments made a number of minor changes in the Program, again to encourage greater participation. The emergency phase of the Program was extended for several years. Enforcement of a 1968 provision which prohibited federal disaster relief in communities participating for more than a year was delayed two years. This was to give citizens a greater opportunity to learn more about flood insurance.

The most significant changes to date in the National Flood Insurance Program resulted from enactment of the 1973 Flood Disaster Protection Act. A variety of measures made participation more attractive. Federal financial assistance for construction in flood hazard areas was made contingent on purchase of flood insurance. Such Federal assistance includes not only direct aid from agencies but also from federally regulated or insured lending institutions. To

be able to purchase insurance, the community had to be participating in the Program which in turn meant that flood plain management regulatory measures had been enacted.

HUD was required to identify and notify all communities with special flood hazard areas. Procedures were also established to allow communities to appeal HUD flood hazard areas designations. The result of these changes has been a dramatic increase in the number of participating communities and policies sold.

